

TEACHERS' RETIREMENT BOARD MEETING

November 17, 2006

CALL TO ORDER

Chairman Scott Dubbs called the meeting to order at 8:30 a.m., in the Teachers' Retirement System Conference Room, 1500 East Sixth Avenue, Helena, Montana.

BOARD MEMBERS PRESENT:

Chairman, Scott Dubbs
Tim Ryan
Kari Peiffer
James Turcotte
Darrell Layman

STAFF PRESENT:

David L. Senn, Executive Director
Tammy Rau, Deputy Executive Director
Dave Ohler, Legal Counsel
Dan Gaughan, Accounting/Fiscal Manager
Johnelle Sedlock, Benefits Officer
Karla Scharf, Retired Payroll Manager
Bill Hallinan

OTHERS PRESENT:

Scott Miller, MPERA
Jon Moe, Legal Fiscal Div.
Janet Kelly, Dept. of Administration
Tom Bilodeau, MEA-MFT
Charlotte Thomas, Retired Teachers' Association
Kathy Braun, OPI
Bob Vogel, MSBA
Mark Olleman, Milliman

CALL TO ORDER

Adopt Agenda - Chairman Scott Dubbs called for additions or changes to the Agenda for November 17, 2006. Seeing none, Chairman Dubbs requested a motion to adopt the Agenda. Mr. James Turcotte moved that the agenda be approved. Seconded by Mrs. Kari Peiffer, the motion carried unanimously.

Approval of September 8, 2006 Minutes - Chairman Dubbs called for changes to the September 8, 2006, Board meeting minutes.

Mrs. Peiffer pointed out on page 7, paragraph 2, "Ms. Rau asked," should be changed to "Mrs. Kari Peiffer asked."

Chairman Dubbs pointed out that on page 7, paragraph 6, the heading should be changed from "10% Cap- Multiply Employers" to read "10% Cap- Multiple Employers".

Mrs. Tammy Rau asked that the annual disability review for "Kimberly Goob" be corrected to read "Kimberly Gaub."

Mr. Turcotte pointed out that on pages 6-7, where there are discussions regarding Individual Petitions, he'd like to see the same tense regarding quotes in 'first person' used throughout the paragraph.

MOTION/VOTE: Mr. Tim Ryan moved to accept the September 8, 2006 Minutes as corrected. Seconded by Mrs. Peiffer, the motion carried unanimously.

PUBLIC COMMENT

Chairman Dubbs called for public comment on Board related items. Seeing none, Mr. Dubbs introduced Mr. Mark C. Olleman, Consulting Actuary, Milliman USA, to discuss the 2006 Actuarial Valuation.

ACTUARIAL VALUATION – MARK OLLEMAN

Mr. Olleman commented, as of July 1, 2006, the system had unfunded actuarial accrued liabilities of \$863.1 million, compared to \$903.3 million the year before. The current employer contribution rate of 7.47% plus the employee contribution rate of 7.15% are not adequate to amortize the unfunded liability over 30 years. Therefore, the System is not actuarially sound.

Mr. Ryan asked if the July 1, 2006 figure includes the \$100 million infusion from the December 2005 Special Session.

Mr. Olleman answered that it does. In order to pay off the unfunded liability over a 30 year period, which is what's recommended by the Governmental Accounting Standards Board, a 3.38% employer contribution rate increase will be needed, which would bring the total contribution rate of 14.73% up to 18.11%. The 3.38% increase starting July 1, 2007, is projected to amortize the unfunded liability over the 30 years beginning July 1, 2006.

Mr. Olleman explained that in July 1, 2005, the unfunded actuarial accrued liability was \$903.3 million. During the past year, we expected the unfunded liabilities to increase by \$44.9 million, because current contribution rates do not pay either the principal or all of the interest that accrued during the year. In addition, we adopted a new mortality assumption, which increased the unfunded liability \$24 million and a small net experience gain of \$5.3 million, which brought the expected unfunded liability, without the \$100 million contribution, to \$966.9 million. Assuming the System earned 7.75% on the \$100 million for the whole six months after the contribution was made, the July 1, 2006 unfunded actuarial accrued liability would be \$863.1 million.

When discussing assets, Mr. Olleman pointed out that prior valuations have smoothed market gains and losses over five years. The purpose of smoothing is to remove contribution volatility by offsetting gains with losses. Mr. Olleman made a point that the System had \$136 million of unrecognized gains in 2000. That helped when the market declined and returns went negative,

but we would have had to have very large unrecognized gains to have covered the 2001 and 2002 losses of \$650 million. The July 1, 2006 valuation uses market assets.

Mr. Olleman explained, the unfunded actuarial accrued liability is financed by contributions as a percentage of both TRS members' and the Optional Retirement Program (ORP) members' compensation. The Montana University System (MUS) makes a supplemental contribution equal to 4.04% of ORP member's compensation. The July 1, 2006 valuation projects that a contribution rate of 4.72% is needed, starting July 1, 2007, to pay off the MUS liability by July 1, 2033.

Mr. Olleman presented to the Board a variety of contribution schedules comparing TRS contribution rate increases with the current 4.04% Supplemental Contribution rate vs. one with a 4.72% Supplemental Contribution rate. He also discussed the ideas of graded increases, including contribution rate increase with \$100M infusion and a 2.0% increase on July 1, 2007, or a one-time cash infusion to establish a 30-year amortization.

In conclusion, Mr. Olleman informed the Board that the asset returns of the 2 years ending June 30, 2001 and 2002 severely hurt the funding of most retirement systems including TRS. The \$100 million infusion in January of 2006 made a substantial impact, but the System is still not actuarially sound. To become actuarially sound, the System needs either, a \$395.5 million cash infusion, contribution rate increases of 3.38%, or a combination of cash infusions and contribution rate increases.

Mr. Olleman concluded that the Board's legislative proposal is actuarially sound. This proposal includes, a July 1, 2007 \$100M infusion, and two graded employer contribution rate increases; one for July 1, 2007 at 2.00% and another July 1, 2009 at 0.38%. Lastly, the MUS Supplemental Contribution rate will increase as of July 1, 2007 from 4.04% to 4.72%, an increase of 0.68%.

MOTION/VOTE: Mr. Turcotte made a motion to accept the Actuarial Valuation as presented. Seconded by Mr. Layman, after seeing no further discussion or public comment, the motion carried unanimously.

INTRODUCTIONS

Mr. Senn introduced to the Board, Ms. Janet Kelly, Director, Department of Administration, and thanked her for participating in today's meeting. She graciously stated she had been meaning to come to one of the TRS Board Meetings and found the agenda extremely interesting. Chairman Dubbs reflected the Board's sentiment that they appreciate having the Director attend and having an opportunity to interact with her.

Chairman Dubbs also extended the Board's appreciation to all the guests for their time, efforts, energies, and the dedication it took to attend.

2007 LEGISLATIVE PROPOSALS

TRS Actuarial Funding Proposal - Mr. Senn presented the Actuarial Funding proposal as it appears in the Governor's budget. The draft includes the \$100 million cash infusion to the

Teachers' Retirement System, and a 2% increase in employer contribution rates effective July 1, 2007, with a second increase of 0.38% effective July 1, 2009. The increased employer contributions will be paid by the State General Fund for School Districts and Community Colleges, thus, resulting in no property tax increase. There is also an appropriation in the bill to pay the additional employer cost of State Agencies and University System.

The University ORP supplemental contribution rate will also increase from 4.04% to 4.72%, an increase of 0.68%, effective July 1, 2007.

Mr. Senn made note that in addition to funding increases, there are also amendments to close loopholes that enable members to retire and continue working essentially full-time. The amendments will clarify the definitions of full-time and part-time service, and of the maximum amount of compensation retirees may earn. Mr. Senn also pointed out that this bill will eliminate the statutory minimum interest rate and the requirement that the Board increase GABA to 3.0% as funds become available.

In addition, the proposal clarifies the 'Legislative Statement of Intent', stating that it is the intent of the Legislature to provide equitable retirement benefits to members of the teachers' retirement system based on each member's normal service and salary, and to limit the effect on the retirement system of isolated salary increases received by a member, such as, but not limited to, end-of-career promotions, or one-time salary enhancements during the member's last years of employment; and to limit the total compensation, including fringe benefits, that a retired member may earn after retirement in a position that would normally be included in the teachers' retirement system to the amount determined under 19-20-731(1)(a).

Charlotte Thomas, Retired Teachers' Association, questioned if they rescind the GABA, how would that affect teachers?

Mr. Senn responded by explaining the proposal would not rescind GABA, but would repeal only that section of the law that says the Board may increase GABA from 1.5% to 3.0%. If this section is removed, then we will have to go to the Legislature and request additional funding before GABA could be increased.

Mr. Layman made note that he had difficulties accepting this amendment since he remembers the struggle that the Board went through to get GABA. He pointed out he does understand the flaw in the funding, but he wondered if the Board could attack it in a different way by requesting funding to increase GABA.

Mr. Senn responded that it would be difficult to ask for additional funding to increase GABA in the same bill in which we are asking for funding to make the system actuarially sound.

Mr. Senn pointed out to the Board that the changes in definitions and changes to close any loopholes would not affect any contracts that are currently executed, and any contracts executed before the effective date of the change, or July 1, 2007. Mr. Senn recommended the Board amend the Bill to make the definition changes effective on passage and approval. All other changes will be effective on July 1, 2007.

MOTION/VOTE: Mr. Layman moved to amend the funding proposal to make the changes to the definitions effective on passage and approval. Seconded by Mrs. Peiffer.

Chairman Dubbs asked for questions or comments from the Board or the public regarding the motion by Mr. Layman.

Mr. Bilodeau stated his organization would support advancing the effective date to immediate upon passage.

Bob Vogel, MTSBA, urged the Board to stay with the effective date of July 1, 2007, instead of effective on passage and approval. This would give new employees and existing retirees the opportunity to get themselves through one more contract year.

Mr. Vogel expressed concern that fringe benefits would be included in the maximum a retiree may earn, but excluded from the definition of earned compensation prior to retirement. Mr. Vogel suggested the Board raise the $\frac{1}{3}$ earnings limit up to $\frac{1}{2}$ of the member's average final compensation. He suggested a stair-stepping gradually up to the $\frac{1}{2}$.

Mr. Ryan stated he would be very concerned with raising the $\frac{1}{3}$ to $\frac{1}{2}$, which could have a significant cost to the system.

Mr. Turcotte shared with the Board that he has a great reluctance to look at any changes to retirement policy and to use the System as an incentive tool. He expressed reluctance to enhance retirement benefits when we have recruiting problems.

Mrs. Peiffer informed the Board she agrees with Mr. Turcotte's comments. She stated there is a problem here, but the retirement system is not the place to solve that problem.

Mr. Layman added his concerns that TRS is being used as a vehicle to solve some of these problems. Employment and retirement are two different issues. It should be a legislative process working with school boards and unions to put in-place legislation that funds teacher's salaries.

Chairman Dubbs asked the Board to vote on the motion to make the changes to the definitions effective on passage and approval; the motion carried unanimously.

MOTION/VOTE: Mr. Ryan made a motion to accept funding legislation as amended, seconded by Mr. Turcotte. Chairman Dubbs asked if there was any further discussion or public comment. Finding none, the motion carried unanimously.

TRS Housekeeping Proposal - Mr. Senn summarized the Housekeeping Proposal explaining it would clarify that paraprofessionals must be members of the Teachers' Retirement System; that elected county superintendents would be required to file a membership election form under certain circumstances; clarify that members cannot concurrently participate in both the Teachers' Retirement System and the Optional Retirement Plan; revise the requirements of family law orders to provide for the payment of benefits for the life of the alternate payee; clarify that only active or inactive vested members may purchase service credit; require accounts reinstated from dormant status include interest; provide for the payment of interest on correction of errors; clarify the date of termination for the purpose of termination pay; provide for the correct use of accounting terms; clarify lump sum amounts due an estate may be paid to the

personal representative or executor; and would require employers use the system's online reporting system for authorizing voluntary insurance premium deductions.

Chairman Dubbs opened the floor to the Public for questions or comments.

MOTION/VOTE: Mrs. Peiffer moved to accept the housekeeping legislation as proposed, seconded by Mr. Ryan. Chairman Dubbs asked if there was any further discussion. Finding none, the motion carried unanimously.

Alternative Plan Design - The Board's proposal to establish an interim study committee to look at and recommend a new plan has not yet been approved by the Governor's Office. Mr. Senn recommended the Board work with the legislature to find a sponsor to introduce this proposal.

MOTION/VOTE: Mr. Turcotte moved Mr. Senn respond by encouraging the legislature to establish an interim study committee to look at and recommend a new plan design. Seconded by Mr. Layman, following further discussion and public comment, the motion carried unanimously.

Other Legislative Proposals - Mr. Senn presented Bill LC014. This bill would combine the Teachers' and the PERS Boards; based on the Board's past position on similar legislation, Mr. Senn assumed the Board will oppose this bill.

Chairman Dubbs agreed that the Board would not be in support of LC14.

Mr. Senn summarized Bill LC0013 to mandate that new members participate in the PERS defined contribution plan.

LC0016 would substitute statutory regulation for professional money management. Mr. Senn advised he would be representing the Board as opponents to this legislature.

LC0018 requires 30-year actuarial funding for retirement benefit enhancements. Mr. Senn suggested the Board recommend to the Legislature that they adopt the Board's funding and benefit policy.

LC0021 requires annual detailed actuarial valuations for retirement systems. Mr. Senn pointed out that we are already doing annual actuarial valuations.

LC0842 would require annual actuarial valuation reports for retirement systems. Mr. Senn pointed out that we are already doing annual actuarial valuations.

LC0843 talks about laws requiring defining investment risk for retirement plans. Mr. Senn informed the Board he will oppose this legislation on behalf of the Board.

Mr. Senn continued to review the list of pending bill draft requests, giving the Board a general status reports on the bills affecting TRS.

Chairman Dubbs opened discussion on other Legislative Proposals.

Mr. Tom Bilodeau told the Board that MEA-MFT will only bringing one retirement related bill to the Legislature. It would increase the university employer's contribution to ORP participants from its current 4.956% salary to 5.956% of salary.

Mr. Bilodeau commented on the three items the Board just discussed regarding TRS house keeping bill and funding bill that MEA-MFT would be in strong support of those bills. The study proposal, he felt, it was something that needs to be proceeded with and MEA-MFT would support it anyway they can. He also stated that MEA-MFT would clearly like to be on record as opposed to any attempt to combine TRS and PERS Boards. Mr. Bilodeau also made note that MEA-MFT would oppose any attempt to establish any form of tiered benefit structure for members in the TRS system that includes any opposition to a voluntary or mandatory defined contribution option for new hires. This opposition would also include any changes to benefit structures that would only affect new hires. He noted that MEA-MFT would prefer any changes that do come about resulting in a full-fledged, well considered, well thought out and discussed study process.

Chairman Dubbs asked for any other public comments or questions, seeing none Chairman Dubbs asked for the Executive Director's Report.

EXECUTIVE DIRECTOR'S REPORT

2007 GABA Increase - Following each actuarial valuation the Board must determine if sufficient funding is available to increase GABA from 1.5% to a maximum of 3.0%. Mr. Senn informed the Board there is not sufficient funds and he recommends the Board not increase GABA.

MOTION/VOTE: Mr. Layman moved to leave GABA at 1.5%, seconded by Mr. Ryan. Chairman Dubbs asked for any discussion or public comment, finding none, the motion carried unanimously.

National Coalition on Health Care - Mr. Senn informed the TRS Board that the National Coalition on Health Care works for comprehensive reforms for the health care system. It has many retirement systems in its membership, such as the National Association of State Retirement Administrators and the National Counsel on Teachers Retirement. The Board is being asked to join at this time.

Fees to join this organization for a fund our size would be \$5,000.00. Mr. Senn made note that if we decide to join this organization it would require a vote to also amend the current budget.

MOTION/VOTE: Mr. Ryan moved that the Board decline at this time. He added he felt it was premature and should require more discussion and information before making a decision. Seconded by Mr. Turcotte, the motion carried unanimously.

Goals and Objectives - Mr. Senn presented the Board's goals and objectives for the 2007 biennium and reviewed the status of each objective. After some discussions by the Board, Mr. Ryan supported deleting any reference to GABA in the Board's goals since there is no funding for it and it gives our members false hope. Mr. Senn made note that the goals would be revised for the 2009 biennium.

Executive Summary – Mr. Senn reported the Legislative Auditor's Office was in the final stage of completing the compliance and financial audit of the Teachers' Retirement System for fiscal year 2006. An unqualified opinion was expected with only one recommendation that the Board

seek legislation to ensure that the System is actuarially funded. The Exit Conference was scheduled for Tuesday, November 21, 2006.

Mr. Turcotte mentioned he would be available if the Board wanted a Board member to attend the Exit Conference. The Board agreed that would be a good idea if Mr. Turcotte would be present at that meeting.

East Helena Paraprofessionals – Mr. Senn reported he met with the paraprofessionals and that they accepted the Board's offer to waive the interest on amounts due TRS to transfer their PERS accounts to TRS and collect the difference in the contribution rates due TRS. The amounts each member will have to pay ranges from \$7.98 to \$534.38, and totals \$2,063.01. The employer total due TRS is \$5,384.94. The Union is negotiating with the District to pay the employee's cost.

Mr. Senn stated that next week he will meet with the superintendent and the two retired teachers that were working as paraprofessionals. One of them has a small account at PERS that will almost cover the amount she was overpaid in retirement benefits, so it will cost her about \$400 out of pocket to repay the benefits she should not have received.

The other retiree received about \$11,000.00 in benefits that she was not entitled to, and we will be discussing her repayment options. One of her options is to not repay the amount owed and accept an actuarial reduction in future benefits. If she waited to age 60 that reduction would be about \$125.00 a month. Another option is to purchase additional service, take the actuarial deduction, since the service may be less expensive than paying back the benefits. Mr. Senn informed the Board he has also offered the option to repay the money over a period of time with no interest.

Working Retirees – Mr. Senn reported we sent letters to approximately 40 schools questioning retirees they had reported to the Office of Public Instruction (OPI) as working full-time on their Annual Data Collection (ADC) report, and reported to TRS as working only part-time. The explanations ranged from 'their ADC report was incorrect', to 'accreditation required a full-time employee, so that was what they reported.' However, all responses seem to indicate that the person in question was working only part-time, at least by the current TRS definition.

OTHER BUSINESS

2007 meeting Dates - MOTION/VOTE: A motion was made by Mr. Layman to adopt February 9, May 11, September 7, and November 16 as the dates for the TRS Board to meet in 2007. Seconded by Mr. Ryan, the motion carried unanimously.

Out of State Travel – Out of state travel request were presented to the Board for: David Senn to attend the NCTR Legislative Committee February 2007 in Washington, DC, Bill Hallinan to attend the Public Retirement Information System Manager's Prison Conference in San Antonio, Texas; and for Tammy Rau to attend the Government Finance Office annual conference.

MOTION/VOTE: Mr. Ryan moved to approve the out-of-state travel requests. Seconded by Mrs. Peiffer, the motion carried unanimously.

Personnel Committee Report – Mrs. Rau informed the Board that she and Mr. Senn met with the Personnel Committee on Thursday, November 16, 2007, to discuss current year performance appraisals, which ended on the 31st of October. Mrs. Rau reviewed recommendations made by supervisors for compensation adjustments for staff members who have met or exceeded the performance expectations during that appraisal period, and/or have demonstrated competency growth and sustained performance over an extended period of time. Mrs. Rau relayed to the Board that pursuant to the current compensation guidelines, any adjustments that are approved by the Executive Director, will be effective with the first full pay period in January.

Mr. Ryan asked if our current budget has enough elasticity to handle these recommendations.

Mrs. Rau informed the Board that there are enough funds in our budget to absorb the costs of these performance adjustments.

Mr. Dubbs commented that Mrs. Bilden, Jim Kerins, Personnel Consultant, meet yesterday. Mr. Kerins was very complimentary of the staff here at TRS and the way they are working toward implementing the compensation program. Mr. Dubbs added that he felt it reflected the leadership and administration. Mr. Dubbs stated that Mona Bilden and he wanted to publicly thank Tammy & Dave for the work that they have done and how far we have come with this performance compensation process. Mr. Dubbs added that he has been on the committee for over 3 years, and it takes a long time to have an understanding of how the process works, so they are to be commended.

MOTION/VOTE Mr. Ryan moved to accept the report of the Personnel Committee. Seconded by Mrs. Peiffer the motion carried unanimously.

Information Systems update – Mr. Bill Hallinan presented to the Board updates on computer security and disaster issues that affect TRS. He informed the Board there are a couple of issues that affect the fiduciary responsibility of the Board in terms of computer security in disaster recovery. He discussed how computer security related to taking care of confidentiality of our members and to make sure people do not steal member information.

NCTR Annual Conference Report – Mr. Turcotte and Mr. Senn attended this year's NCTR annual conference in Austin, Texas, in October. They discussed the highlights and events of interest to the Board.

Financial Statements, Budget, Delinquent Agency and Travel Reports - Mr. Dan Gaughan presented the financial statements to the Board. He pointed out on the balance sheet that STIP is higher than last year at this time which is due to the \$100 million cash infusion in January. Mr. Gaughan noted the new investment titled MTRP is a real estate investment which started the first of May.

Mr. Ryan asked what expenses are put in 'other' expenses.

Mr. Gaughan informed the Board that 'other' expenses include items such as education activity expenses and freight. Mr. Gaughan explained some charges to this account are indirect cost activity that the State passes on to all agencies and are taken care of at the beginning of the year.

In reporting delinquent agencies, Mr. Gaughan told the Board that currently we have no delinquent accounts.

Finding no further questions regarding Mr. Gaughan's reports, Chairman Dubbs asked Mr. Senn for the Annual per diem Report.

Annual Per Diem Election Reports – Mr. Senn stated that Board members and public employees who receive both the \$50 a day per diem as a Board member and their regular salary, are double-dipping and we need to file a Multiple Public Employment Disclosure Form by December 15, 2006.

LEGAL COUNSEL REPORT

Case Updates - Mr. Dave Ohler gave a brief update on the Merle Farrier case, noting that the Chairman signed a Final Agency Decision on October 27, 2006.

BOARD OF INVESTMENT

Mr. Carroll South reviewed the investment performance of the Teachers' Retirement System for fiscal year 2006. He showed the Board the different balances of 2005-2006, one showing book value and the other showing the fair market value, down more than \$15 million than last year, due to a poor year of bonds. Mr. South explained bond prices went down further than the interest earned on bonds. Mr. South stated domestic equities are where most of our income came from this year. Mr. South shared the pros and cons of new money or private equity, discussed capital calls and the STIP values we need to met our commitments regarding the real estate pool.

Mr. South informed the Board that we are now hiring more active managers than passive since our performance did not beat the index because almost 2/3rds of our investments were passively invested. Four new managers were hired in June, to beat the index with a lower risk factor, calling it a synthetic style managing. Mr. South informed the Board that what is next is interviewing large capital managers.

RETIREMENT REPORT

Service Retirements and Survivor Benefits - Chairman Dubbs asked that the service retirements and survivor benefits list be separated by Agency number and presented at our next meeting. Mr. Senn indicated it would.

CLOSED MEETING

Chairman Dubbs directed the meeting closed at 2:14 p.m. to review disability applications since the individual's right to privacy of information pertaining to disability benefits clearly exceeds the merits of public disclosure.

OPEN MEETING

Application for Disability Retirement Benefits – The meeting was reopened to the public at 3:10 p.m.

The staff recommends that Dorothy M. Guardipee be approved for disability retirement benefits.

MOTION/VOTE: Mr. Ryan moved to approve the disability application of Dorothy M. Guardipee. Seconded by Mr. Layman, the motion carried unanimously.

CLOSED MEETING Chairman Dubbs closed the meeting at 3:20 p.m. The Personnel Committee presented to the Board Dave Senn's performance evaluation.

OPEN MEETING Chairman Dubbs reopened the meeting to the public at 3:40 p.m.

MOTION/VOTE: Mr. Layman moved to accept Mr. Senn's performance evaluation from the Personnel Committee. Seconded by Mrs. Peiffer, the motion carried unanimously.

ADJOURNMENT

There being no further business, the meeting was adjourned at 3:45 p.m.

Chairperson _____

Executive Director _____